

THE RODMAN REPORT

2005

RHODE ISLAND REAL ESTATE SURVEY

## **Preface**

We are pleased to present our 11<sup>th</sup> *annual* Rodman Real Estate Report. There have been many changes and transitions throughout the last decade. During the early nineties it was suggested that the Rhode Island business community could not survive the combination of DEPCO and the loss of major employers especially in the manufacturing sector. There was significant pain and business contraction, but somehow there was success, prosperity and even growth. There is no blueprint for the next decade, but we remain optimistic in the future of Rhode Island.

**Sheldon Rodman, SIOR, President**  
srodman@rodmanrealestate.com

**Neil Amper, SIOR, Vice-President**  
namper@rodmanrealestate.com

**Thomas Sweeney, SIOR, Vice-President**  
tsweeney@rodmanrealestate.com

**David Widmann, Sales Associate**  
dwidmann@rodmanrealestate.com

**Constance Jaquith, Broker Associate**  
cjaquith@rodmanrealestate.com

**Alex Kaufman, Broker Associate**

72 Pine Street  
Providence, Rhode Island 02903  
401 273-2270  
401 273-2273 fax

## Introduction

Rodman Real Estate, Inc. has conducted a statewide survey of the Rhode Island industrial real estate market. The purpose of this Survey is to track several variables which will assist in determining the strength and vitality of this market and any developing trends.

Data for this Survey was drawn from research on **45** established Industrial Parks and Industrial Areas encompassing **25,690,894** square feet of space. We included data from buildings of **10,000** square feet or more, however, Industrial Parks with a high concentration of buildings fewer than **10,000** square feet were also included. Mill buildings were excluded from this study.

The variables we have researched include selling price per square foot, lease price per square foot on a Net of Utilities basis and vacancy rates. For analysis purpose, the Survey has been broken down into the following categories:

### **GEOGRAPHIC AREAS**

Northern  
Providence Metro  
Central West Bay  
East Bay  
Southern

### **SQUARE FOOTAGE**

**00,000 - 15,000**  
**15,001 - 30,000**  
**30,001 - 60,000**  
**60,001 +**

The information provided for this survey was obtained from several sources. It is intended for informational purposes only and should not be relied on by any party without further independent verification. Although deemed reliable, the information for this report is not warranted by Rodman Real Estate, Inc. Commentary, analysis, observations and opinions expressed in this report are those solely of Rodman Real Estate, Inc. except where noted. This report is copyrighted and may not be reproduced in part, or in its entirety, without the permission of Rodman Real Estate, Inc. Data from this report may be cited with proper acknowledgement given.

## **Working, Living, and Investing in our Own Back Yard**

James Procaccianti, Chief Executive Officer  
The Procaccianti Group

As a national real estate developer and leading hotelier, The Procaccianti Group is continuously researching key metropolitan areas in the U.S. for new opportunities for real estate development, renovation, and hospitality businesses. We evaluate three important criteria which must exist in a vibrant community; high potential returns on investment, a developer-friendly government, and low barriers to entry.

We are very fortunate that all of the above exist in Providence, our own back yard.

It's no surprise to us that Providence has quickly become one of the most desirable cities in the United States where residents can live, work, and play. We can remember a time when the concept of "urban living" in Providence was less desirable. But today, with the city's vibrant arts community, world class dining and theatre, thriving business climate, and top-ranked educational institutions, Providence is clearly being recognized as a jewel of the northeast. And at The Procaccianti Group, we are very proud to be a part of it.

Our investments and commitment to our city have received considerable local and national attention, especially for the vision of a Providence "powerblock". The "powerblock" is a term all Rhode Islanders can embrace as a sign of strength and pride in our capital city and the booming business community. The "powerblock" will be the center for homes, businesses, and restaurants – the hub of urban living in Providence.

Anchoring the "powerblock" is our \$150 million Residences at the Westin Providence. This 32-story tower will soon be a focal point of the city skyline, featuring 200 additional hotel rooms and 103 luxury residential homes offering all the amenities of our Four-Star Westin hotel. Imagine being able to walk from Nordstrom's in Providence Place Mall, through the Westin, the Convention Center, via skybridge to the Dunkin Donuts Center, and eventually arriving at the Hilton Suites--another TPG property nearing completion of its \$25 million renovation. Our investment in the Hilton Suites (currently the Holiday Inn) has recently received the "Hilton Best Conversion" award, putting Providence in the national spotlight once again.

Other TPG components to the Providence "powerblock" are, 111 Fountain Street (formerly the Fogarty Building), which will house restaurant, retail, and Class A office space, and LaSalle Square, (former headquarters of the Providence Police and Fire Departments), which will be called Empire @ Broadway and include restaurant, retail, Class A office space and a residential living component.

We have believed in Providence's potential since my family started this company more than 50 years ago. TPG employees, our extended family, live, work, and play in Providence. So, while our business takes us across the country, we continue to invest in the city that is near, and dear to us. We are honored to play such a vital role in creating a city that satisfies the needs of people today, while creating a foundation to perpetuate success for generations to come.

## Median Sales Analysis

There were significant changes on most levels in 2005. There were increases in dollar volume as well as square footage. The increases were in most categories and buyers who had needs were not as concerned with price but availability.

There were a total of **65** transactions in 2005, which is a drop of **21%** from the previous year.

The total square footage volume in 2005 was **3,532,580**, which was an increase of **27%** from the **2,775,381** in 2004. The dollar sales were **\$80,335,000** in 2005 versus **\$75,529,000**, which was a **6%** increase.

Buildings below **15,000** square feet recorded increases in both industrial parks as well as non-industrial parks. The total aggregate sample increased by **16.5 %**, the industrial park sector increased by **8.6%** and the non-park sector increased by **11%**. There were 31 sales in this category which was nearly half of the total sales for the year

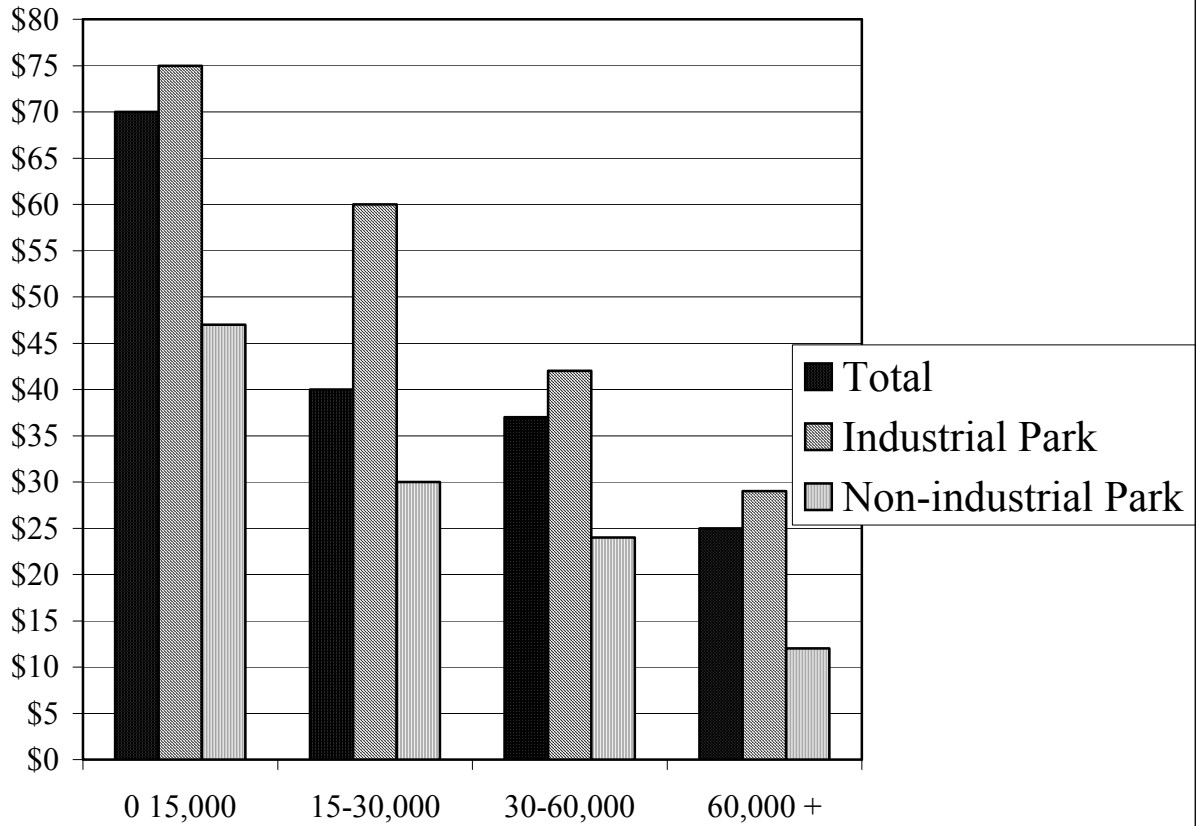
Buildings between **15,000** and **30,000** square feet recorded significant increases of **11%** in industrial park buildings and **16%** in non-industrial park buildings.

The changes for buildings in the **30,000-60,000** category were more moderate. The total sample increased by **5%** and the non-park area increased by **9%**.

The category of buildings above **60,000** square feet was the most dramatic of any sector. The total sample increased by **66%**. The industrial park sector increased by **26%** and the non-park sector area increased by **20%**.

The increases are typical of the Rhode Island market. We can see dramatic increases in one year and moderate to no increases in the previous year. The market is effectuated by the general state of the economy especially when local companies receive new business and look to expand based upon the existing inventory of available buildings.

## 2005 MEDIAN PRICE PER SQUARE FOOT



## Industrial Leases

The activity level of the industrial lease market has firmed and in some cases increased in rate. The median lease rate was **\$6.42** a square foot for a small sampling with the average size being **19,606** square feet.

The selling of mill buildings in Providence, Pawtucket and East Providence has displaced lessees, from reasonably priced space. It has been difficult for them to replace either comparable space or comparable prices.

There is also a shortage of warehouse/manufacturing space in the **1,500-15,000** square foot category. Tenants will have to be able to absorb increased costs in both base rent and NNN expenses. Although there was more activity in space above 20,000 square feet by an large the market was flat with asking lease rates staying firm.

There has been an abundance of properties above **40,000** square feet and the marketing time has lengthened to a year or longer. A survey of east coast properties yields only **165** available locations. The average asking lease rate was **\$5.00 NNN**. The same survey revealed that only **40** lease transactions were concluded in 2005.

We have seen more inquires but that has not translated into leases as of yet. The same dynamics of the last few years, that being a shortage of buildings to buy will eventually force the lease market into a more active position.

## Vacancy Analysis

**Northern:** There was a decrease of the vacancy factor to **2%**. The market has grown dramatically in the past five years with the parks in Woonsocket and Cumberland producing industrial as well as office buildings. The affordability of the land and new highway access was a boost to the area and while there is less land there is still an active market for existing buildings. Cumberland and Woonsocket were committed to expanding the tax base and were successful in streamlining the process.

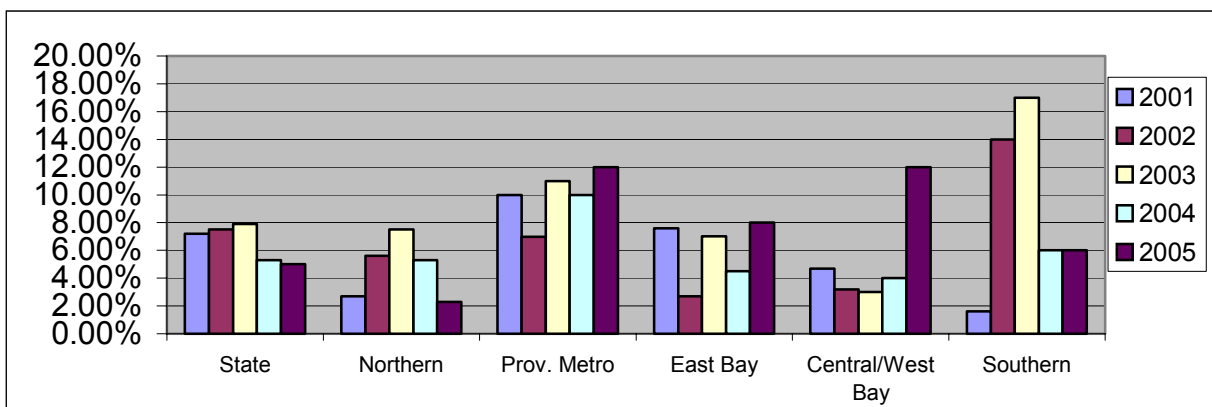
**Providence Metro:** The area continues to be stagnant in absorption of existing industrial buildings. The vacancy is **12%**, which is slightly higher than last year with some of the same buildings remaining empty. The common issues are the inventory tax and high real estate taxes. The conversion of mill buildings to residential continues and while this presumably will add to the tax base, it will displace many smaller businesses that will probably be forced to leave the city.

**Central West Bay:** There was a large increase in the factor to **12%**, but it is centered on just a few buildings. The asking sale price for buildings in the **5,000 – 25,000** square foot range have begun to price some out the market. There have been sales in the **\$75** a square foot range and they have been quick sales.

**East Bay/Aquidneck Island:** The vacancy is at **8%**, and that is in one building. Companies that are software and government contractors keep the vacancy relatively stable and at least for the near future that does appear as if it will change.

**Southern/Quonset:** The current vacancy is at **1.6%** and the new road system is beginning to come on line to Quonset Point. There have been some expansion by some companies and there are large blocks of high bay space that is available. It is expected that this could be a high growth area in the next few years.

**Statewide:** The vacancy is a **4.7%** a drop from 2004's rate of **5.3%**. The level of construction and expansion has been consistent and although there appears to be as many inquires the level of transactions seems to be slowing.



## Median Office Sales

We tracked **41** transactions in 2005 and that accounted for **923,000** square feet of sales with a dollar amount of **\$113,209,000**. There were sales of smaller properties in the **\$125-\$157 per square foot** and this was a reflection of the lack of availability. The median rate was **\$110 per square foot**, which is less than 2004, but there was by far more activity.

Buyers were forced to lower their capitalization rate expectation to force owners of office properties to sell. One Financial Plaza in Providence, which is a **322,284 square foot building, sold for \$46,200,000 or \$146 a square foot**. A **31,000 square foot** building located at 300 Richmond Street in Providence sold for **\$5,000,000 or \$158 a square foot**. Sold to W&I (primary tenant)

The sales were spread throughout the region with Warwick and Providence again out pacing the rest of the state. It is unlikely that the price for investment property will rise with interest rates rising and lease rates rising only moderately. It is possible that owner occupied properties will rise because of the shortage of properties to purchase

## Median Office Leases

The former General Electric buildings in Warwick on Service Road was the only building in the suburban market that had contiguous space of **25,000** square feet. It became fully leased and the developer converted a two-story building and split the space. The building sat virtually vacant for nearly 10 years and because of the location, price and availability became a successful project.

There were about **600,000** square feet of new leases and some were leased in converted industrial buildings such as 40 Sharpe Drive in the Howard Industrial Park in Cranston.

We have seen some appreciation in the suburban market, but by and large they have been small with fewer concessions. The market rates are still around **\$15.00** a square foot with the lower range of **\$12.00** now being **\$13.00** and the upper range of **\$23.00** not changing.

The Providence market has not seen any dramatic changes with space that was available at the beginning of the year still on the market.

We still feel that the office lease market will remain firm with very change for the balance of 2006.

## Summary Analysis

We did not anticipate some of the increases in the industrial sector. There were very site specific purchases in the marketplace and they impacted the sales data in a positive manner. What has occurred is that some companies are being priced out of the market and are being forced to look to lease facilities. The lease rates are at historical highs and concessions are almost non-existent in smaller buildings. but there are still properties above **40,000** square feet that have lingered for some time.

The converting of mill buildings to residential is continuing, although the state is talking about reducing the percentage of tax credits. Two new projects were announced in Providence and West Warwick, but it remains to be seen how the absorption can continue with so many projects being contemplated. The construction of luxury condominiums and apartments in downtown has begun to transform the landscape and most will hit the market in the next two years.

The slow steady rise of interest rates will reduce the sale price of investment property and capitalization rates may reflect this trend. There are still more clients to buy than there are properties, but sellers have been accustomed to multiple buyers for high profile and well located buildings.